

1995 in a manner that reasonably reflects the extent to which each of the activities continues the single restaurant and catering activity. Under paragraph (f)(4)(i)(B) of this section, the disallowed deductions allocated to the restaurant activity in 1995 are treated as deductions from the restaurant activity for 1995, and the disallowed deductions allocated to the catering activity in 1995 are treated as deductions from the catering activity for 1995.

**Example 3.** (i) In 1993, the taxpayer acquires a restaurant and a catering business. Assume that in 1993 and 1994 the restaurant and the catering business are treated under § 1.469-4 as an interest in a single passive activity of the taxpayer (the restaurant and catering activity). A \$10,000 loss from the activity is disallowed under § 1.469-1T(f)(2) for 1994. Assume that in 1995, the taxpayer's interests in the restaurant and the catering business are treated under § 1.469-4 as interests in two separate passive activities of the taxpayer. In addition, a \$20,000 loss from the activity was disallowed under § 1.469-1T(f)(2) for 1993, and the gross income and deductions (including deductions that were disallowed for 1993 under § 1.469-1T(f)(2)) from the restaurant and catering business for 1993 and 1994 are as follows:

	Restaurant	Catering business
1993:		
Gross income .....	\$20,000	\$60,000
Deductions .....	40,000	60,000
Net income (loss) .....	(20,000)	.....
1994:		
Gross income .....	40,000	50,000
Deductions .....	<sup>1</sup> 30,000	<sup>2</sup> 70,000
Net income (loss) .....	10,000	(20,000)

<sup>1</sup> Includes \$8,000 of deductions that were disallowed for 1993 (\$20,000 x \$40,000/\$100,000).

<sup>2</sup> Includes \$12,000 of deductions that were disallowed for 1993 (\$20,000 x \$60,000/\$100,000).

(ii) Under paragraph (f)(4)(i)(A) of this section, the disallowed deductions from the restaurant and catering activity must be allocated among the taxpayer's activities for the succeeding year in a manner that reasonably reflects the extent to which those activities continue the restaurant and catering activity. The remainder of this example describes a number of allocation methods that will ordinarily satisfy the requirement of paragraph (f)(4)(i)(A) of this section. The description of specific allocation methods in this example does not preclude the use of other reasonable allocation methods for purposes of paragraph (f)(4)(i)(A) of this section.

(iii) Ordinarily, an allocation of disallowed deductions from the restaurant to the restaurant activity and disallowed deductions from the catering business to the catering activity would satisfy the requirement of paragraph (f)(4)(i)(A) of this section. Under

§ 1.469-1T (f)(2)(ii), a ratable portion of each deduction from the restaurant and catering activity is disallowed for 1994. Thus, \$3,000 of the 1994 deductions from the restaurant are disallowed (\$10,000 x \$30,000/\$100,000), and \$7,000 of the 1994 deductions from the catering business are disallowed (\$10,000 x \$70,000/\$100,000). Thus, the taxpayer can ordinarily treat \$3,000 of the disallowed deductions as deductions from the restaurant activity for 1995, and \$7,000 of the disallowed deductions as deductions from the catering activity for 1995.

(iv) Ordinarily, an allocation of disallowed deductions between the restaurant activity and catering activity in proportion to the losses from the restaurant and from the catering business for 1994 would also satisfy the requirement of paragraph (f)(4)(i)(A) of this section. If the restaurant and the catering business had been treated as separate activities in 1994, the restaurant activity would have had net income of \$10,000 and the catering activity would have had a \$20,000 loss. Thus, the taxpayer can ordinarily treat all \$10,000 of disallowed deductions as deductions from the catering activity for 1995.

(v) Ordinarily, an allocation of disallowed deductions between the restaurant activity and catering activity in proportion to the losses from the restaurant and from the catering business for 1994 (determined as if the restaurant and the catering business had been separate activities for all taxable years) would also satisfy the requirement of paragraph (f)(4)(i)(A) of this section. If the restaurant and the catering business had been treated as separate activities for all taxable years, the entire \$20,000 loss from the restaurant in 1993 would have been allocated to the restaurant activity in 1994, and the gross income and deductions from the separate activities for 1994 would be as follows:

	Restaurant	Catering business
Gross income .....	\$40,000	\$50,000
Deductions .....	42,000	58,000
Net income (loss) .....	(2,000)	(8,000)

Thus, the taxpayer can ordinarily treat \$2,000 of the disallowed deductions as deductions from the restaurant activity for 1995, and \$8,000 of the disallowed deductions as deductions from the catering activity for 1995.

**Example 4.** (i) The taxpayer is a partner in a law partnership that acquires a building in December 1993 for use in the partnership's law practice. In taxable year 1993, four floors that are not needed in the law practice are leased to tenants; in taxable year 1994, two floors are leased to tenants; in taxable years after 1994, only one floor is leased to tenants and the rental operations are insubstantial. Assume that under § 1.469-4, the law practice and the rental property are treated as a